FDIC State Profile

Spring 2005

Utah

Utah had the eighth fastest job growth of all states during 2004 and is expected to continue its strength during 2005.

- Nonfarm jobs in the state grew 2.9 percent in the year ending fourth quarter 2004, a significant improvement when compared with the minuscule 0.8 percent growth rate recorded the previous year (See Chart 1). Strength in job growth is expected to continue in 2005.[1] All sectors in Utah reported job gains, led by the trade, transportation, and utilities sector, which added 5,900 new jobs. More than half of the job gains were in the retail trade industry.

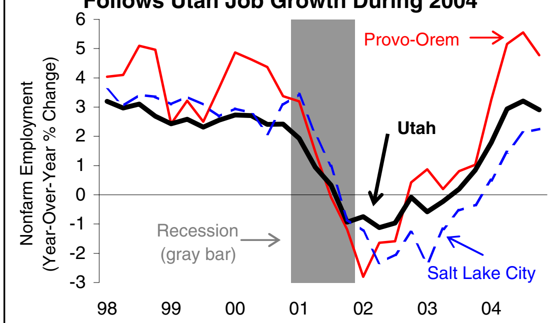
- Although the **Provo-Orem** MSA reported among the fastest job growth rates in the nation, the **Salt Lake City-Ogden** MSA also recorded significant improvement. The professional and business services sector led Salt Lake City's growth with the addition of 2,600 new jobs, followed closely by the trade, transportation and utilities sector, which added 2,500 jobs. Employment was weak in the information sector and the finance, insurance, and real estate sector.

- The trade, transportation, and utilities sector may experience continued strength from a weakened dollar relative to the Euro, which benefits tourism and exports. In addition, continued strength in the business services sector, a job growth driver for the state, is expected to follow the recovery in venture capital investment in Utah.

Commercial real estate (CRE) fundamentals recover slowly.

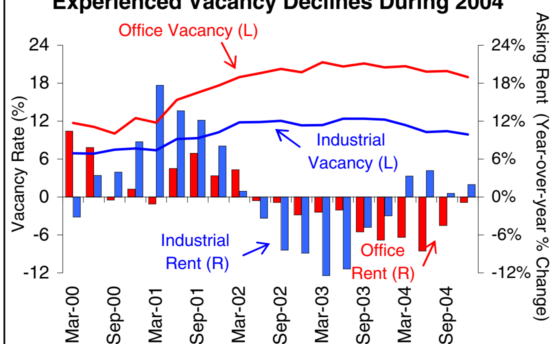
- Although growth in the professional and business services sector translated into improved CRE fundamentals, office vacancies remain high, and both office and industrial rental rates hovered below peak levels. In Salt Lake City, the fourth quarter 2004 year-over-year office vacancy rate declined from 20.5 percent to 19.0 percent but remained well above the 15.4 percent national rate. During that time period, the industrial vacancy rate decreased from 12.2 percent to 9.9 percent, slightly below the 10.9 percent national rate. However, over the next two years, industry experts predict no significant change in office

Chart 1: Provo Leads and Salt Lake City Follows Utah Job Growth During 2004



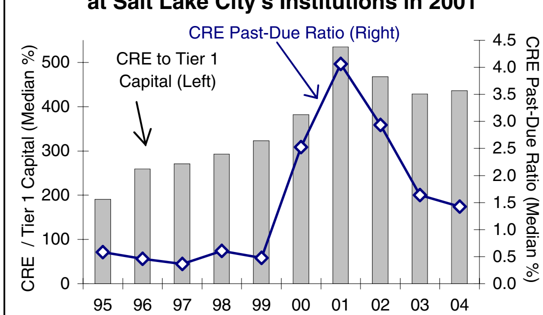
Note: Quarterly data beginning first quarter of 1998.
Sources: Bureau of Labor Statistics and National Bureau of Economic Research.

Chart 2: Salt Lake Office and Industrial Markets Experienced Vacancy Declines During 2004



Source: Torto Wheaton Research

Chart 3: CRE Exposure and Past-Dues Peaked at Salt Lake City's Institutions in 2001



Note: CRE is commerical real estate loans.
Source: FDIC Bank and Thrift Call Reports.

[1] "Western Blue Chip Economic Forecast", W.P. Carey School of Business at Arizona State University, December 2004.

vacancy rates but anticipate a slight increase in industrial vacancy rates as completions outpace absorption.[2]

- Despite improvements in vacancies, the office rental rate in Salt Lake City continued to experience some declines (See Chart 2). As of fourth quarter 2004, rents for office space declined 10 percent since their fourth quarter 2001 peak, while industrial rents declined 10 percent since their third quarter 2001 peak. Going forward, some landlords in Salt Lake City may continue to experience lease re-pricing pressures as long-term contracts established during a better rental rate environment expire.

- Similar to CRE vacancy trends, median CRE past-due ratios and exposure among established community institutions in the Salt Lake City metro area have moderated since their 2001 peak (See Chart 3). Nonetheless, past-due and exposure levels remain elevated relative to the nation.

Overall asset quality improves despite deterioration in Industrial Loan Company (ILC) commercial and industrial (C&I) portfolios.

- Improving economic conditions had a positive effect on asset quality; the year-end past-due ratio for Utah headquartered insured institutions declined from 2.82 percent in 2003 to 2.25 percent of total loans in 2004. Although this ratio remains well above the national ratio of 1.43 percent, it lowers Utah's ranking from second in 2003 to fifth highest in the nation as of December 31, 2004. The primary reason past-due levels did not fall further is because of an increase among established ILCs, with C&I loans driving the increase in overall delinquencies.[3] Overall, institutions based in Utah reported the second highest median C&I loan past-due ratio in the nation as of year-end 2004.

Higher levels of noncore funding may result in interest expense increasing more rapidly.

- Insured financial institutions headquartered in Utah reported a median noncore funding to assets ratio of 23 percent as of year-end 2004, which is higher than the 19 percent reported by institutions nationwide. The above average reliance on noncore funding is in large part attributed to the funding structure of ILCs, which accounted for 43 percent of institutions headquartered in the state at year-end 2004.

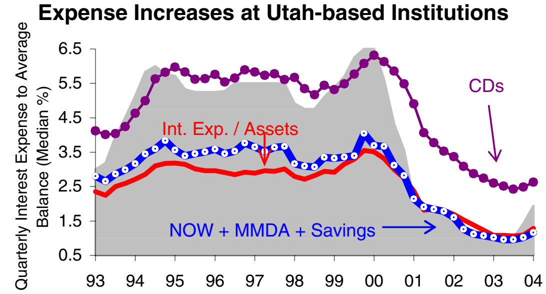
- ILCs funded 57 percent of total assets with noncore funds as of year-end 2004, compared with only 18 percent for other insured financial institutions headquartered in Utah. Seventy-nine percent of all Utah-based ILCs reported use of brokered deposits. Among these, the median level of brokered deposits funded a large 56 percent of assets. Interest expense increased at ILCs, while continuing to decrease at other insured institutions based in Utah, possibly indicating the use of brokered deposits by ILCs has driven overall interest expense higher (See Chart 4).

Earnings performance improved overall, but decreased at ILCs.

- Consistent with the state's improving economy, insured institutions based in Utah reported a median return on average assets (ROA) of 1.63 percent for 2004, up from 1.55 percent one year ago, and much higher than the 1.02 percent reported nationwide.

- ILCs continued to report higher earnings than other insured financial institutions headquartered in the state. However, year-over-year earnings at ILCs declined, as margins narrowed, overhead increased, and noninterest income decreased. Conversely, other insured financial institutions headquartered in Utah reported a strong improvement in their median ROA (1.46 percent, up from 1.32 percent in 2003) as margins expanded and overhead and credit costs decreased.

Chart 4: Noncore Funds May be Driving Interest Expense Increases at Utah-based Institutions



Note: Includes Call Report filers only. NOW is negotiable order of withdrawal; MMDA is money market deposit account; DDA is demand deposit account; CD is certificate of deposit. Gray shaded area denotes average target Federal Funds rate for the quarter.
Sources: FDIC; Federal Reserve

[2] The national figure is based on a "sum of markets" calculation. The data and forecast source is TortoWheaton Research.
[3] Established Industrial Loan Companies are defined as having been in operation longer than three years.

Utah at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.9%	0.8%	-0.1%	-0.9%	2.4%
Manufacturing (10%)	3.2%	-0.5%	-4.1%	-5.8%	-0.4%
Other (non-manufacturing) Goods-Producing (7%)	7.1%	-0.2%	-3.8%	0.1%	-2.9%
Private Service-Producing (64%)	2.8%	1.3%	0.5%	-1.2%	3.4%
Government (18%)	1.5%	0.6%	2.0%	2.8%	3.0%
Unemployment Rate (% of labor force)	5.1	5.5	5.8	5.0	3.6

Other Indicators	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Personal Income	N/A	4.2%	1.8%	4.9%	7.5%
Single-Family Home Permits	9.0%	20.1%	20.1%	1.1%	-9.0%
Multifamily Building Permits	8.7%	1.5%	-19.0%	43.0%	-34.2%
Existing Home Sales	-10.0%	12.2%	13.2%	12.8%	0.0%
Home Price Index	5.3%	1.4%	1.6%	3.9%	3.1%
Bankruptcy Filings per 1000 people (quarterly level)	1.97	2.22	2.40	2.14	1.78

BANKING TRENDS

General Information	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Institutions (#)	67	64	60	59	61
Total Assets (in millions)	193,304	150,904	138,210	132,771	104,464
New Institutions (# < 3 years)	12	10	10	12	13
Subchapter S Institutions	10	8	7	6	5

Asset Quality	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Past-Due and Nonaccrual Loans / Total Loans (median %)	2.25	2.82	3.33	4.35	3.67
ALLL/Total Loans (median %)	1.53	1.70	1.61	1.65	1.75
ALLL/Noncurrent Loans (median multiple)	2.70	1.91	1.71	1.78	1.72
Net Loan Losses / Total Loans (median %)	0.27	0.54	0.55	0.34	0.25

Capital / Earnings	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Tier 1 Leverage (median %)	13.49	13.59	12.08	13.17	12.70
Return on Assets (median %)	1.63	1.55	1.59	1.59	1.48
Pretax Return on Assets (median %)	2.18	2.15	2.29	2.34	2.22
Net Interest Margin (median %)	5.13	5.26	5.60	5.88	5.95
Yield on Earning Assets (median %)	6.72	6.84	7.93	9.04	9.61
Cost of Funding Earning Assets (median %)	1.23	1.32	2.13	3.16	3.75
Provisions to Avg. Assets (median %)	0.26	0.38	0.47	0.48	0.37
Noninterest Income to Avg. Assets (median %)	1.18	1.39	1.32	1.27	1.54
Overhead to Avg. Assets (median %)	3.72	3.88	3.84	4.51	4.45

Liquidity / Sensitivity	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Loans to Assets (median %)	71.6	69.5	73.1	72.8	69.1
Noncore Funding to Assets (median %)	23.2	22.1	26.0	22.5	19.3
Long-term Assets to Assets (median %, call filers)	4.5	4.1	4.5	4.3	5.8
Brokered Deposits (number of institutions)	38	31	31	26	21
Brokered Deposits to Assets (median % for those above)	36.6	31.9	23.6	25.5	33.5

Loan Concentrations (median % of Tier 1 Capital)	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Commercial and Industrial	65.6	77.4	107.2	94.4	88.9
Commercial Real Estate	23.5	71.0	73.2	88.5	70.1
Construction & Development	2.4	13.1	31.9	53.1	21.6
Multifamily Residential Real Estate	0.2	0.4	0.3	0.1	0.0
Nonresidential Real Estate	19.7	33.6	39.5	16.0	12.3
Residential Real Estate	22.8	27.3	37.7	33.5	32.5
Consumer	17.1	24.6	50.1	41.4	52.6
Agriculture	0.0	0.0	0.1	0.2	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Salt Lake City, UT	53	92,458	< $250 mil.	38 (56.7%)
Ogden-Clearfield, UT	18	3,061	$250 mil. to $1 bil.	16 (23.9%)
Provo-Orem, UT	14	2,491	$1 bil. to $10 bil.	6 (9%)
St. George, UT	9	1,096	> $10 bil.	7 (10.4%)
Logan, UT-ID	12	932		